

**GRANT AREA DISTRICT LIBRARY  
NEWAYGO COUNTY, MICHIGAN**

**FINANCIAL STATEMENTS**

**JUNE 30, 2008**

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## GRANT AREA DISTRICT LIBRARY

### Board Members

<u>Appointed Official</u>	<u>Position</u>
Steve Rau	President
Sandy Risedorph	Vice-President
Scott Jensen	Secretary
A.J. McKinley	Treasurer
Dan Murray	Trustee
Senaida Hudson	Trustee
Eric Irwin	Trustee
Tammy Bouwkamp	Trustee

### Administration

Deborah Bose	Director
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# H&S Companies

Hendon & Slate, PC  
Certified Public Accountants  
Business Consultants

Library Board  
Grant Area District Library  
Newaygo County  
Grant, MI 49327

## Independent Auditor's Report

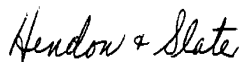
We have audited the accompanying financial statements of the Grant Area District Library as of and for the year ended June 30, 2008 as listed in the accompanying table of contents. These financial statements are the responsibility of the Library's board. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free from material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Grant Area District Library as of June 30, 2008, and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplemental information listed in the table of contents as supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Grant Area District Library. This information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

The management's discussion and analysis included in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Grant Area District Library. We did not examine this data and, accordingly, do not express an opinion thereon.



Hendon & Slate, P.C.  
Certified Public Accountants  
October 29, 2008

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## GRANT AREA DISTRICT LIBRARY

### Management's Discussion and Analysis (MD&A) Year Ended June 30, 2008

#### **Using this Annual Report**

This annual report consists of three parts - *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include information that presents two different views of the Library:

Notes A through H of the financial statements include information on the Library's General Fund under the modified accrual method. These notes focus on current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.

Note I of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full accrual method.

Note I also provides both long-term and short-term information about the Library's overall financial status. The statement of net assets and the statement of activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in the short-term as well as what remains for future spending.

The *government-wide financial statement* columns provide both *long-term* and *short-term* information about the Library's *overall* financial status. The statement of net assets and the statement of activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in the short-term as well as what remains for future spending.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

#### **Condensed Financial Information**

The table below contains key financial information in a condensed format:

	<u>6/30/2008</u>	<u>6/30/2007</u>
Current Assets	\$ 172,887	\$ 217,533
Noncurrent Assets	<u>2,802,301</u>	<u>2,882,672</u>
Total Assets	2,975,188	3,100,205
Long-Term Liabilities	1,885,000	1,946,894
Other Liabilities	<u>40,168</u>	<u>63,861</u>
Total Liabilities	<u>1,925,168</u>	<u>2,010,755</u>

## Management's Discussion and Analysis (Continued)

Net Assets		
Invested in Capital Assets-Net of Debt	\$ 917,301	\$ 935,778
Restricted for Capital Projects	744	1,150
Restricted for Debt Service	104,666	103,862
Unrestricted	<u>27,309</u>	<u>48,660</u>
Total Net Assets	<u>\$ 1,050,020</u>	<u>\$ 1,089,450</u>
Revenue		
Property Taxes	\$ 303,067	\$ 294,871
Grants	40,228	25,295
Other	<u>87,334</u>	<u>70,160</u>
Total Revenues	430,629	390,326
Expenses		
Library Services	(462,408)	(422,847)
Other Financing Uses		
Loss on Sale of Books	<u>(7,651)</u>	<u>(11,422)</u>
Change in Net Assets	<u>\$ (39,430)</u>	<u>\$ (43,943)</u>

### **The Library as a Whole**

The Library's net assets decreased by \$39,430 in 2008 compared to \$43,943 in 2007.

The Library's primary source of revenue is property taxes, which represent 70% of total revenues for 2008 compared to 76% for 2007.

Salaries and fringe benefits are a significant expense of the Library, representing 29% of total expenses for 2008 compared to 35% in 2007.

Depreciation expense for the current year represented 23% of the Library's total expenses for 2008 and 23% for 2007.

The Library is in a worse financial position than it was in the preceding year. This is so, to a large degree, due to irregularities in the conduct of the former bookkeeper. It has been determined that errors and omissions occurred pertaining to payroll tax filings as well as the receipting process. The Library found itself in the position of needing to determine the extent of the problems. Fees for services to a forensic auditor as well as legal fees stretched the resources of the Library even further. Despite this adversity, strides have been taken toward ensuring that the Library has come into compliance with the IRS as well as tightening the internal controls over the receipting process.

## Management's Discussion and Analysis (Continued)

### **The Library's Funds**

Our analysis of the Library's major funds is included on pages 5 and 6 in the first column of the respective statements. The fund columns provide detail information about the most significant funds, not the Library as a whole. The Library Board has the ability to create separate funds to help manage money for specific purposes, and to maintain accountability for certain activities, such as property tax mileages. The Library's major funds consist of the General Fund, Capital Projects Fund and the Debt Service Fund.

The fund balance of the General Fund decreased during the year by \$17,398.

Salaries and fringe benefits were the largest uses of resources during the current fiscal year.

### **Library's Budgetary Highlights**

Over the course of the year, the Library Board amended the budget to take into account events that occurred during the year. The most significant amendments occurred in grant revenues and books & materials.

Due to the poor economy in Michigan, State Aid remained at the same level as the previous year. Penal fines have declined as judges have trended toward replacing monetary restitution with community service. These factors would have led to a very poor financial year had it not been for an unrestricted donation of \$20,000 in December 2007.

The Library continues to look for ways to control operating costs. To that end, the Library is considering erecting a wind turbine on Library property to reduce electricity costs. The Library is also converting the retention pond to a rain garden which should increase the value of the property as well as eliminate the collection of ground water in the area.

### **Capital Asset and Debt Administration**

At the end of 2008, the Library had \$3,206,657 invested in land, buildings, furniture and equipment, and books and materials. The Library added \$34,822 in new equipment, building improvements and collection items during the current year. Of this total, \$7,766 was spent on seven computers and two printers and the remaining \$27,056 added consisted of new collection items including books, various audio/visual materials and additions to the music collection.

The Library's bonded indebtedness totaled \$1,885,000 at June 30, 2008 consisting of \$1,885,000 in building and site bonds. No debt was issued during the fiscal year.

### **Next Year's Millage Rates**

On September 18, 2007, the Library Board approved a levy of .6732 mills per thousand dollars of taxable value to service bonded indebtedness. Subject to the Headlee rollback, .8695 was approved to be levied for the purpose of providing Library funds for the operation of the Library.

### **Contacting the Library's Management**

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Library's finances and to demonstrate the Library's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Librarian of the Grant Area District Library, 122 Elder Street, Grant, MI 49327-8411.

# GRANT AREA DISTRICT LIBRARY

## Governmental Funds Balance Sheet/Statement of Net Assets

June 30, 2008

	General Fund	Capital Projects Fund	Debt Service Fund	Total	Adjustments*	Statement of Activities
<b>ASSETS</b>						
Cash	\$ 59,378	\$ 744	\$ 104,666	\$ 164,788	\$ -	\$ 164,788
Accounts Receivable	19	-	-	19	-	19
Due from Other Governments	2,735	-	-	2,735	-	2,735
Prepaid Expenses	-	-	-	-	5,345	5,345
Land	-	-	-	-	111,000	111,000
Capital Assets, Net of Accumulated Depreciation	-	-	-	-	2,691,301	2,691,301
Total Assets	<u>\$ 62,132</u>	<u>\$ 744</u>	<u>\$ 104,666</u>	<u>\$ 167,542</u>	<u>2,807,646</u>	<u>\$ 2,975,188</u>
<b>LIABILITIES &amp; FUND EQUITY</b>						
Liabilities						
Accounts Payable	\$ 3,692	\$ -	\$ -	\$ 3,692	-	3,692
Accrued Liabilities	8,581	-	-	8,581	8,553	17,134
Deferred Revenue	19,342	-	-	19,342	-	19,342
Long-Term Liabilities						
Bonds Payable, Due Within 1 Year	-	-	-	-	60,000	60,000
Bonds Payable, Due After 1 Year	-	-	-	-	1,825,000	1,825,000
Total Liabilities	31,615	-	-	31,615	1,893,553	1,925,168
Fund Balance/Net Assets						
Fund Balances						
Unreserved, Undesignated	30,517	-	-	30,517	(30,517)	-
Unreserved, Designated	-	744	-	744	(744)	-
Unreserved, Reported in Debt Service	-	-	104,666	104,666	(104,666)	-
Total Fund Balances	<u>30,517</u>	<u>744</u>	<u>104,666</u>	<u>135,927</u>	<u>(135,927)</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 62,132</u>	<u>\$ 744</u>	<u>\$ 104,666</u>	<u>\$ 167,542</u>		
Net Assets						
Invested in Capital Assets - Net of Related Debt					917,301	917,301
Restricted for Capital Projects					744	744
Restricted for Debt Service					104,666	104,666
Unrestricted					27,309	27,309
Total Net Assets					<u>\$ 1,050,020</u>	<u>\$ 1,050,020</u>

\* Notes to the Financial Statements provide the details for main components of the adjustments.

The Notes to the Financial Statements are an integral part of this statements.



# GRANT AREA DISTRICT LIBRARY

## Statement of Governmental Revenues, Expenditures and Changes in Fund Balance/Statement of Activities June 30, 2008

	General Fund	Capital Projects Fund	Debt Service Fund	Total	Adjustments*	Statement of Activities
<b>REVENUE</b>						
Local Sources						
Property Taxes	\$ 170,728	\$ -	\$ 132,339	\$ 303,067	\$ -	\$ 303,067
Rentals	2,046	-	-	2,046	-	2,046
Grants	40,228	-	-	40,228	-	40,228
Penal Fines	35,027	-	-	35,027	-	35,027
Interest	931	3	625	1,559	-	1,559
Book Fines	7,275	-	-	7,275	-	7,275
Donations & Memorials	22,571	-	-	22,571	-	22,571
Sale of Books	103	-	-	103	-	103
Miscellaneous	13,313	-	-	13,313	-	13,313
Total Local Sources	292,222	3	132,964	425,189	-	425,189
State Sources - State Aid	5,440	-	-	5,440	-	5,440
Total Revenue	297,662	3	132,964	430,629	-	430,629
<b>EXPENDITURES</b>						
Salaries and Wages	123,029	-	-	123,029	3,556	126,585
Payroll Taxes	9,356	-	-	9,356	-	9,356
Books and Materials	29,120	-	-	29,120	(27,056)	2,064
Utilities and Telephone	44,527	-	-	44,527	-	44,527
Repairs and Maintenance	22,622	409	-	23,031	-	23,031
Insurance	9,322	-	-	9,322	397	9,719
Capital Outlay	7,766	-	-	7,766	(7,766)	-
Professional and Contracted Services	22,544	-	-	22,544	-	22,544

Co-Op Services	16,975	-	-	16,975	-	16,975
Supplies	8,061	-	-	8,061	-	8,061
Summer Reading Program	2,168	-	-	2,168	-	2,168
Training & Transportation	416	-	-	416	-	416
Advertising	207	-	-	207	-	207
Miscellaneous	3,173	-	440	3,613	-	3,613
Penalties and Interest	13,665	-	-	13,665	-	13,665
Depreciation	-	-	-	-	107,542	107,542
Debt Service - Principal	1,894	-	60,000	61,894	(61,894)	-
- Interest	215	-	71,720	71,935	-	71,935
Total Expenditures	<u>315,060</u>	<u>409.0000</u>	<u>132,160</u>	<u>447,629</u>	<u>14,779</u>	<u>462,408</u>
Excess Revenue Over (Under) Expenditures	(17,398)	(406)	804	(17,000)	(14,779)	(31,779)
Other Financing Resources (Uses)						
Loss on Sale of Books	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,651)</u>	<u>(7,651)</u>
Change in Fund Balance/Net Assets	(17,398)	(406)	804	(17,000)	(22,430)	(39,430)
Fund Balance/Net Assets - July 1, 2007	<u>47,915</u>	<u>1,150</u>	<u>103,862</u>	<u>152,927</u>	<u>936,523</u>	<u>1,089,450</u>
Fund Balance/Net Assets - June 30, 2008	<u>\$ 30,517</u>	<u>\$ 744</u>	<u>\$ 104,666</u>	<u>\$ 135,927</u>	<u>\$ 914,093</u>	<u>\$ 1,050,020</u>

\* Notes to the Financial Statements provide the details for main components of the adjustments.

The Notes to the Financial Statements are an integral part of this statement.

## **GRANT AREA DISTRICT LIBRARY**

Notes to the Financial Statements  
For the Year Ended June 30, 2008

### **NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Grant Area District Library conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant policies:

#### **1. REPORTING ENTITY**

The Grant Public Library was reorganized as the Grant Area District Library as created by Act 24 of the Public Acts of 1989, as amended, effective July 1, 1996. The purpose of the Grant Area District Library is to provide library services to the City of Grant and surrounding local units, including the Grant Public Schools. The Library's Board consists of eight appointed board members.

The financial statements include all activities of the Library. There are no governmental departments, agencies, institutions, commissions, public authorities or organizations within the Library, which its appointed officials may exercise oversight responsibility, that have been excluded. Oversight responsibility is considered to be derived from the Library's power and includes, but is not limited to, financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability of fiscal matters.

Also, using the same criteria above, the Library's financial statements include the accounts of all Library operations.

#### **2. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION**

The Library's basic financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library's major and non-major funds).

##### **Government-Wide Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three parts-investing in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

## Notes to the Financial Statements (Continued)

The effect of interfund activity has been eliminated from the government-wide financial statements. Also, there are no fiduciary funds included in the government-wide statements.

### **Fund Financial Statements**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments, are record only when payment is due.

Property taxes, State Shared Revenue, Penal Fines and interest are considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Grants and similar awards are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. Deferred revenues arise when resources are received by the Library before it has met all of the eligibility requirements imposed by the grantor or provider.

The Library reports the following major governmental funds:

General Fund - This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the library. Revenues are derived primarily from intergovernmental activities.

Capital Projects Fund - The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities which are not financed by proprietary or trust funds.

Debt Service Fund - Debt Service Funds are used to account for the accumulation of resources for and the payment of general long-term debt principal, interest and related costs.

### 3. CAPITAL ASSETS

Capital assets are defined by the Library as assets with an initial cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance that do not add to the value of the asset or materially extend assets lives are expenses as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and Improvements	10 - 50 Years
Furniture and Equipment	5 - 20 Years
Library Books and Materials	3 - 10 Years

4. PROPERTY TAXES

Property taxes are levied on December 1st based on the taxable valuation of the property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year. The Townships and City bill and collect the property taxes.

5. CASH AND EQUIVALENTS

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments, if any, with original maturities of three months or less from date of acquisition.

6. USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

7. PREPAID EXPENSES

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

8. COMPENSATED ABSENCES

It is the Library's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Library employees are granted vacation and sick leave in varying amounts based on length on service. Upon termination, employees are paid accumulated vacation at full rates and accumulated sick leave at one-half their rate of pay. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for this amount is reported in the general fund.

9. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

10. FUND EQUITY

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represents tentative management plans that are subjective to change.

Notes to the Financial Statements (Continued)

NOTE B STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The General Fund is under formal budgetary control. The budget shown in the financial statements for this fund was prepared on a basis not significantly different from the modified accrual basis used to reflect actual results and consists only of those amounts contained in the formal budget approved and amended by the Board.

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2008, the Library did incur material over expenditures in the general fund:

<u>Budget Item</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Professional and Contracted Services	8,773	22,544	(13,771)
Penalties and Interest	-	13,665	(13,665)

In the body of the financial statements, the Library's actual expenditures and budgeted expenditures for the budgetary fund has been shown on a functional basis. The approved budget for this budgetary fund was adopted at the line item level.

NOTE C DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Library to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Library is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Library's funds are held at Valley Ridge Bank and are carried at cost. At June 30, 2008, they consisted of the following:

	<u>Carrying Value</u>	<u>Market Value</u>
General Fund		
Checking - Choice One	\$ 19,236	\$ 18,599
Money Market - Choice One	40,142	40,142
Total General Fund	59,378	58,741
Capital Projects Fund		
Checking - Choice One	744	744

Notes to the Financial Statements (Continued)

Debt Service Fund		
Checking - Choice One	<u>104,666</u>	<u>104,666</u>
Total Debt Service Fund	<u>104,666</u>	<u>104,666</u>
Total Deposits	<u>\$ 164,788</u>	<u>\$ 164,151</u>
FDIC Insured	\$ 140,142	\$ 140,142
Uninsured	<u>24,646</u>	<u>24,009</u>
Total Deposits	<u>\$ 164,788</u>	<u>\$ 164,151</u>

Investments are normally categorized to give an indication of the level of risk assumed by the Library; however, money market funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes the investment in the funds comply with the investment authority noted above.

NOTE D DUE FROM OTHER GOVERNMENTAL UNITS / DEFERRED REVENUE

Receivables

Receivables at June 30, 2008 consisted of the following:

Total Due from State of Michigan	<u>\$ 2,735</u>
----------------------------------	-----------------

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Grants	\$ -	\$ 19,342

NOTE E CAPITAL ASSETS

Capital asset activity of the primary government of the current year was as follows:

	<u>7/1/2007</u>			<u>6/30/2008</u>
<b>Governmental Activities</b>	<b>Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance</b>
Capital Assets not Being Depreciated:				
Land	\$ 111,000	\$ -	\$ -	\$ 111,000
Capital Assets Being Depreciated:				
Library Collection	275,512	27,056	(13,152)	289,416
Buildings & Improvements	2,511,114	7,766	-	2,518,880
Equipment & Furniture	216,182	-	-	216,182
Intangible Assets	<u>71,179</u>	<u>-</u>	<u>-</u>	<u>71,179</u>
Total at Historical Cost	3,073,987	34,822	(13,152)	3,095,657

Notes to the Financial Statements (Continued)

Less Accumulated Depreciation:

Library Collection	(68,318)	(41,103)	5,501	(103,920)
Buildings & Improvements	(161,044)	(46,795)	-	(207,839)
Equipment & Furniture	(54,787)	(15,195)	-	(69,982)
Intangible Assets	(18,166)	(4,449)	-	(22,615)
Total Accumulated Depreciation	(302,315)	(107,542)	5,501	(404,356)
Net Capital Assets Being Depreciated	2,771,672	(72,720)	(7,651)	2,691,301
Total Governmental Activities Capital Assets - Net of Depreciation	<u>\$ 2,882,672</u>	<u>\$ (72,720)</u>	<u>\$ (7,651)</u>	<u>\$ 2,802,301</u>

Depreciation expense for the year ended June 30, 2008 was as follows:

General Fund	\$ 44,454
Capital Projects Fund	<u>63,088</u>
Total Depreciation	<u>\$ 107,542</u>

NOTE F CHANGES IN LONG-TERM DEBT

A summary of the Library's long-term debt outstanding at June 30, 2008 is as follows:

	Balance 7/1/2007	Net Borrowings (Payments)	Balance 6/30/2008	Amounts Due Within One Year
Bonds Payable - Due in annual installments of \$35,000 to \$135,000 through August 2029; interest payable semiannually at 2.0% to 4.4%	\$ 1,945,000	\$ (60,000)	\$ 1,885,000	\$ 60,000
Capital Lease - Due in monthly installments of \$248.91 through January 2008; interest payable monthly at 11.8%	1,894	(1,894)	-	-
Total Long-Term Debt	<u>\$ 1,946,894</u>	<u>\$ (61,894)</u>	<u>\$ 1,885,000</u>	<u>\$ 60,000</u>

Debt Service Requirements

The annual requirements to amortized all debt outstanding at June 30, 2008 including both principal and interest are as follows:

Year Ended June 30	Bond Issue 2003 Library Building and Site		Capital Lease Office Equipment		Total Requirements
	Principal	Interest	Principal	Interest	
2009	\$ 60,000	\$ 70,430	\$ -	\$ -	\$ 130,430
2010	65,000	68,928	-	-	133,928



Notes to the Financial Statements (Continued)

2011	\$ 65,000	\$ 67,140	\$ -	\$ -	\$ 132,140
2012	65,000	65,190	-	-	130,190
2013	70,000	63,130	-	-	133,130
2014-2018	385,000	279,378	-	-	664,378
2019-2023	465,000	201,385	-	-	666,385
2024-2028	575,000	94,540	-	-	669,540
2029-2031	<u>135,000</u>	<u>2,970</u>	<u>-</u>	<u>-</u>	<u>137,970</u>
Total	\$1,885,000	\$ 913,091	\$ -	\$ -	2,798,091
Less: Interest					<u>913,091</u>
Present Value of Minimum Lease Payments					<u>\$ 3,711,182</u>

Interest expense of the Library for the year ended June 30, 2008 amounted to \$71,720 on the Bond Issue and \$215 on the Capital Lease.

NOTE G ENDOWMENT FUND

The Fremont Area Community Foundation holds an endowment fund which has been earmarked for the Grant Area District Library. The value of the endowment fund as of June 30, 2008 was \$56,667. The Foundation also holds funds for the Library from the capital campaign for the construction of the new building. The balance of the capital campaign fund as of June 30, 2008 was \$11,555 which is to be spent on improvements to or maintenance of the Library.

NOTE H RISK MANAGEMENT

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Library maintains commercial insurance coverage for each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Library. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE I RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Total fund balance and the net change in fund balance of the Library's governmental fund differs from net assets and the statement of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and change in fund balance. The following is a reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets:

**Total Fund Balance - Modified Accrual Basis** **\$ 135,927**

Amounts reported in the statement of net assets are different because:

Notes to the Financial Statements (Continued)

Prepaid Insurance reflects amounts that will be used in a future period		5,345
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund statements. Amounts reported for governmental activities in the statement of net assets:		
Governmental Capital Assets	3,206,657	
Governmental Accumulated Depreciation	<u>(404,356)</u>	2,802,301
Long-term liabilities are not due and payable in the current period and therefore are not reported in the fund statements. Long-term liabilities reported in the statement of net assets that are not reported in the governmental statement of activities:		
Compensated Absences	(8,553)	
Bonds Payable	<u>(1,885,000)</u>	<u>(1,893,553)</u>
<b>Net Assets of General Fund - Full Accrual Basis</b>		<u><u>\$ 1,050,020</u></u>
<b>Net Change in Fund Balances - Modified Accrual Basis</b>		\$ (17,000)
Amounts reported in the statement of activities are different because:		
Decrease in the expenses considered to be prepaid		(397)
Increase in the accrual for long-term compensated absences reported as an expenditure in the statement of activities, but not in the fund statements		(3,556)
Capital outlays are reported as expenditures in the statement of revenues, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation		
Library Books and Materials	27,056	
Capital Outlay	7,766	
Depreciation	<u>(107,542)</u>	(72,720)
Repayments of capital lease principal are reported as an expenditure in the fund statements, but not in the statement of activities (where it reduces long-term debt)		61,894
Governmental funds only report the disposal of assets to the extent proceeds are received from the sales. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the disposal of fixed assets		<u>(7,651)</u>
<b>Change in Net Assets of General Fund - Full Accrual Basis</b>		<u><u>\$ (39,430)</u></u>

# GRANT AREA DISTRICT LIBRARY

## Required Supplementary Information Budgetary Comparison Schedule - General Fund For the Year Ended June 30, 2008

REVENUE	Budgeted Amounts		Actual	Variance to Final Budget
	Original	Final		
Local Sources				
Property Taxes	\$ 169,500	\$ 170,728	\$ 170,728	\$ -
Rentals	2,000	2,046	2,046	-
Grants	35,000	34,723	40,228	5,505
Penal Fines	40,000	35,027	35,027	-
Interest	200	159	931	772
Book Fines	7,000	7,275	7,275	-
Donations & Memorials	5,100	22,568	22,571	3
Sale of Books	1,000	103	103	-
Miscellaneous	2,200	10,198	13,313	3,115
Total Local Sources	262,000	282,827	292,222	9,395
State Sources - State Aid	3,400	5,984	5,440	(544)
Total Revenue	265,400	288,811	297,662	8,851
EXPENDITURES				
Salaries and Wages	109,000	126,000	123,029	2,971
Payroll Taxes	8,200	8,500	9,356	(856)
Advertising	500	207	207	-
Books and Materials	31,000	30,582	29,120	1,462
Utilities and Telephone	50,000	47,000	44,527	2,473
Repairs and Maintenance	17,000	22,940	22,622	318
Insurance	10,500	9,322	9,322	-
Capital Outlay	5,800	5,800	7,766	(1,966)
Professional and Contracted Services	6,500	8,773	22,544	(13,771)
Co-Op Services	18,000	16,975	16,975	-
Summer Reading Program	2,500	2,500	2,168	332
Supplies	8,200	6,637	8,061	(1,424)
Training	400	250	225	25
Transportation	300	250	191	59
Miscellaneous	2,500	3,075	3,173	(98)
Penalties and Interest	-	-	13,665	(13,665)
Debt Service - Principal	-	-	1,894	(1,894)
- Interest	-	-	215	(215)
Total Expenditures	270,400	288,811	315,060	(26,249)
Excess Revenue Over (Under) Expenditures	(5,000)	-	(17,398)	(17,398)
Other Financing Resources (Uses)				
Transfers In	5,000	-	-	-
Change in Fund Balance	-	-	(17,398)	(17,398)
Fund Balance - July 1, 2007	-	-	47,915	47,915
Fund Balance - June 30, 2008	\$ -	\$ -	\$ 30,517	\$ 30,517

**GRANT AREA DISTRICT LIBRARY**

Required Supplementary Information  
Budgetary Comparison Schedule - Capital Projects Fund  
For the Year Ended June 30, 2008

<b>REVENUE</b>	Budgeted Amounts		Actual	Variance to Final Budget
	Original	Final		
Local Sources				
Interest	\$ -	\$ -	\$ 3	\$ 3
Total Revenue	-	-	3	3
<b>EXPENDITURES</b>				
Repairs & Maintenance	-	-	409	(409)
Total Expenditures	-	-	409	(409)
Excess Revenue Over (Under) Expenditures	-	-	(406)	(406)
Other Financing Resources (Uses)				
Transfers Out	-	-	-	-
Change in Fund Balance	-	-	(406)	(406)
Fund Balance - July 1, 2007	-	-	1,150	1,150
Fund Balance - June 30, 2008	\$ -	\$ -	\$ 744	\$ 744

# GRANT AREA DISTRICT LIBRARY

## Required Supplementary Information Budgetary Comparison Schedule - Debt Service Fund For the Year Ended June 30, 2008

	Budgeted Amounts			Variance to
	Original	Final	Actual	Final Budget
<b>REVENUE</b>				
Local Sources				
Property Taxes	\$ -	\$ -	\$ 132,339	\$ 132,339
Interest	-	-	625	625
Total Revenue	-	-	132,964	132,964
<b>EXPENDITURES</b>				
Debt Service	-	-	60,000	(60,000)
Miscellaneous	-	-	440	(440)
Total Expenditures	-	-	60,440	(60,440)
Excess Revenue Over (Under) Expenditures	-	-	72,524	72,524
Other Financing Resources (Uses)				
Interest Expense	-	-	(71,720)	71,720
Change in Fund Balance	-	-	804	144,244
Fund Balance - July 1, 2007	-	-	103,862	103,862
Fund Balance - June 30, 2008	\$ -	\$ -	\$ 104,666	\$ 248,106

# H&S Companies

Hendon & Slate, PC  
Certified Public Accountants  
Business Consultants

October 29, 2008

Board Members,  
Grant Area District Library  
Grant, MI 49437

In planning and performing our audit of the financial statements of Grant Area District Library as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Grant Area District Library's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of Grant Area District Library's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

## Anti-Fraud Program

The company has not adopted an Anti-Fraud Program as required by SAS 99. However, a policy has been written and presented to the Board in draft form.

Grand Rapids  
4575 Lake Michigan Dr. NW  
Grand Rapids, MI 49546  
Phone (616) 453-8551  
Fax (616) 453-9352

Muskegon  
4985 South Harvey Street  
Muskegon, MI 49444  
Phone (231) 798-1040  
Fax (231)-798-8409

Fremont  
711 West Main Street  
Fremont, MI 49412  
Phone (231) 924-6890  
Fax (231) 924-4088  
Toll Free (800) 924-6891

Montague  
4538 Dowling Street  
Montague, MI 49437  
Phone (231) 893-6772

Hart  
1550 N. Industrial Park Drive  
Hart, MI 49420  
Phone (231) 873-5611  
Fax (231) 873-7033

[www.hscompanies.com](http://www.hscompanies.com)

Controls over the Selection and Application of Accounting Principles that are in Conformity with Generally Accepted Accounting Principles

The Board currently does not have personnel available with sufficient expertise to select and apply the accounting principles necessary to prepare the financial statements and note disclosures contained in the audit report.

Controls over Segregation of Accounting Duties

The small size of the Library's office staff and lack of segregation of duties creates the danger that intentional or unintentional errors could be made and not detected.

Preparation of Financial Statements

As is common in small organizations, the Library's accounting department currently does not perform the following functions:

- Prepare its financial statements, complete with notes, in accordance with accounting principles generally accepted in the United States of America. Accordingly, the Library is unable to, and has not, established internal controls over the preparation of financial statements.
- Prepare schedules of property and equipment and record depreciation on a monthly basis. Currently, in the course of performing the audit, depreciation schedules are updated for activity during the year, and depreciation is calculated and recorded.
- Prepare journal entries to record deferred revenue. Currently, in the course of performing the audit, deferred revenue is recorded for grant income and property taxes.

As part of the audit, management has requested us to prepare a draft of the Library's financial statements, including the related notes to the financial statements. Management then performed a review of the financial statements. However, in order to provide improved oversight of the financial statement preparation services at an appropriate level and implement controls over the financial reporting process, management might establish review policies and procedures including the performance of some or all of the following functions:

- Review the adequacy of financial statement disclosures, possibly including reviewing and approving a completed disclosure checklist we would provide to you or by completing a disclosure checklist.
- Review and approve schedules and calculations supporting amounts included in the notes to the financial statements.
- Apply analytical procedures to the draft financial statements.
- Perform other procedures as considered necessary by management.

This communication is intended solely for the information and use of management, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

*Hendon & Slate*

Hendon & Slate, P.C.

Certified Public Accountants

Fremont Office

# H&S Companies

Hendon & Slate, PC  
Certified Public Accountants  
Business Consultants

October 29, 2008

To the Board of Directors  
Grant Area District Library

We have audited the financial statements of Grant Area District Library for the year ended June 30, 2008, and have issued our report thereon dated October 29, 2008. Professional standards require that we provide you with the following information related to our audit.

## Our Responsibilities under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 15, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of Grant Area District Library. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Grant Area District Library's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

## Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on July 22, 2008.

## Significant Audit Findings

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Grant Area District Library are described in Note A to the financial statements. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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Fax (231) 873-7033

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Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the value of the Library's collections which is based on fair market value of \$8 per item.

We evaluated the key factors and assumptions used to develop the value of these items in determining that it is reasonable in relation to the financial statements taken as a whole

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 29, 2008.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

Internal controls are designed to safeguard assets and help or detect losses from employee dishonesty or error. We are including the following comments and recommendations :

PRIOR YEAR COMMENTS:

During our audit of the June 30, 2007 financial statements, we made various recommendations that were not able to be implemented as of June 30, 2008 due to both audits being conducted at the same time. We have provided a condensed version of each recommendation again for reference:

- Chart of Accounts – We noted in the previous year that the Library was not in compliance with the Michigan Department of Treasury Uniform Chart of Accounts for Local Units of Government. We suggested that the board take steps necessary to bring their chart of accounts into compliance.
- Cash Receipts – The Library did not have controls in place to prevent the misappropriation of assets. While we noted that the Library had taken steps to remedy the situation, we did suggest one further improvement to the cash receipts process. The improvement was to have two different people count the cash drawer and each present a summary report to the director for comparison.
- Segregation of Duties – The small size of the Library's office staff makes it difficult to separate certain duties that would ideally be undertaken by different individuals. We recommended that the Library consider appointing a board member to take on certain tasks such as performing bank transfers or reviewing bank reconciliations to further segregate duties related to the cash receipting process. In the past, the Treasurer has completed bank reconciliations and compared them with the bookkeeper. Perhaps this could be implemented again.

CURRENT YEAR COMMENTS:

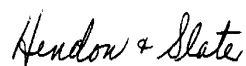
Along with the comments from prior year, we also offer the following:

- Budgeting – The Library's budget is currently not in compliance with the Michigan Department of Treasury Uniform Budgeting Requirements. According to the Uniform Budget Manual (copy attached), the Library's budget must include 1) actual revenues and expenditures for the most recently completed fiscal year, 2) estimated revenues and expenditures for the current fiscal year, 3) estimates for revenues and expenditures for the following fiscal year and 4) beginning and ending fund balance for each year. We recommend that the Board review the Budget Manual and make changes to their budgets to comply with the requirements.

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Library's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of Grant Area District Library and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Hendon & Slate, PC  
Certified Public Accounts  
Fremont Office